

**2001 DRAFTING REQUEST****Senate Amendment (SA-SB55)**Received: **05/08/2001**Received By: **kahlepj**Wanted: **Soon**

Identical to LRB:

For: **Legislative Fiscal Bureau 6-8849**By/Representing: **Shanovich (DH)**This file may be shown to any legislator: **NO**Drafter: **kahlepj**

May Contact:

Addl. Drafters:

Subject: **Econ. Development - misc.**

Extra Copies:

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**Pre Topic:**

LFB:.....Shanovich (DH) -

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**Topic:**

Lapse balance in CAPCO administration appropriation to general fund at year end

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**Instructions:**

See Attached

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**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?	kahlepj 05/08/2001	hhagen 05/08/2001		_____			
/1			jfrantze 05/08/2001	_____	lrb_docadmin 05/08/2001		

FE Sent For:

<END>

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/?	kahlepj	1, hmk 5/8/01	J 6/5/8	Self <u>5/8</u>			

FE Sent For:

&lt;END&gt;



## **Legislative Fiscal Bureau**

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 4, 2001

Joint Committee on Finance

Paper #283

### **Economic Development Administration Consolidation (Commerce -- Departmentwide and Economic Development)**

[LFB 2001-03 Budget Summary: Page 179, #16]

#### **CURRENT LAW**

The Wisconsin Development Fund (WDF) consists of nine programs: (a) technology development grants and loans; (b) customized labor training grants and loans; (c) major economic development grants and loans; (d) urban early planning grants; (e) Wisconsin trade project; (f) employee ownership assistance grants; (g) manufacturing extension center grants; (h) revolving loan fund capitalization grants; and (i) the rapid response fund. Commerce is authorized to charge an origination fee of up to 2% of the award amount on major economic development (MED) and customized labor training (CLT) grants and loans in excess of \$200,000. Fee collections are placed in a program revenue appropriation used to provide funding for administration of the WDF. The appropriation has base level expenditure authority of \$113,000 PR and 2.0 PR positions.

The Certified Capital Companies (CAPCO) program was created by 1997 Wisconsin Act 215. Under the program, an insurance premiums tax credit is provided for insurance company investments in certified capital companies. The certified capital companies are required to use these funds to provide capital to certain small businesses. If the certified capital companies fail to make the required investments in these small businesses, the insurance companies must repay all or part of the credits. Commerce administers the program and certified capital companies must pay an application fee of \$7,500 and an annual certification fee of \$5,000 to the Department. Fees are placed in a program revenue appropriation used to fund administrative expenses. The Act provided 2.0 PR positions to administer the CAPCO program.

## GOVERNOR

Transfer expenditure authority of \$116,500 PR and 2.0 PR positions from the Wisconsin Development Fund (WDF) administration appropriation to the Department's economic development operations appropriation to consolidate administrative personnel and funding. In addition, the WDF administration appropriation would be deleted but loan origination fees and the unencumbered balance in the appropriation would be placed in the economic development operations appropriation. Similarly, the Certified Capital Companies (CAPCO) administration appropriation would be deleted but CAPCO administrative fees and the unencumbered balance in the appropriation would be placed in the economic development operations appropriation.

## DISCUSSION POINTS

1. The 1997-99 biennial budget (1997-99 Wisconsin Act 27) provided Commerce with 1.0 PR auditor position, converted a GPR grants specialist position to PR funding and authorized the Department to charge a loan origination fee of 1.5% of the award amount on customized labor training grants (CLT) and major economic development (MED) grants and loans in excess of \$100,000. The Department cited a 1996 study that showed that staffing for the Bureau's loan portfolio was lower than private lending institution staffing levels for comparable loan portfolios. The Department also indicated that the preapplication process, monitoring responsibilities and audit responsibilities had increased. The loan origination fee was proposed as a means of charging award recipients for a portion of the cost of administering the economic development grant and loan programs. However, loan origination fee revenues were not sufficient to fund both positions and the auditor position was left vacant. In the 1999-01 biennial budget (1999 Wisconsin Act 9), the loan origination fee was increased to 2% of award amounts for CLT and MED grants and loans in excess of \$200,000. The increased fee has not generated enough program revenue to allow the Department to fill the vacant auditor position.

2. Table 1 shows the projected revenues, expenses and appropriation balances for the WDF administration appropriation for the biennium. The table shows that, under current law, loan origination fee revenues would be sufficient to continue funding the grants administration position but there would be no additional revenues to fund the auditor position. Expenditures for fiscal year 2001 are low, because the grants specialist position was switched to GPR funding for the year. The change was made to address the deficit in the appropriation in fiscal year 2000-01. Note that the table shows projected actual expenses, not the total expenditure authority, since one of the authorized positions is vacant.

**TABLE 1**

**WDF Administration Appropriation Revenues, Expenditure  
and Appropriation Balances**

	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	\$14,100	\$19,000
Revenues	70,000	70,000
Expenditures	<u>-65,100</u>	<u>-66,200</u>
Closing Balance	\$19,000	\$22,800

3. The grants specialist position is located in the Bureau of Business Finance while the vacant auditor position is in the Office of Loan and Grant Administration. The Bureau of Business Finance is responsible for underwriting, evaluating projects and making funding recommendations for many of the Department's economic development grant and loan programs. The Bureau underwrites grants and loans for the WDF, Minority Business Finance (MBF), Rural Economic Development (RED), and the federal small cities Community Development Block Grant (CDBG) programs. The Bureau consists of 10.5 authorized positions. The Office of Loan and Grant Administration provides administrative services for the economic development grant and loan programs and for other units in the Department. The Office provides services such as processing and review of certain documents, contracting, loan and grant drawdowns and closeouts, technical assistance, customer assistance and reconciling encumbrances, receipts and disbursements. The Office is authorized 10.6 positions.

4. Act 215 provided Commerce with 2.0 positions to administer the CAPCO program. It was estimated that funding for the positions and related expenses would be \$100,700. The Department indicated that the positions would have a number of responsibilities related to the program including certifying capital companies, capital investments and qualified businesses, reviewing reports and statements, making written determinations, conducting compliance reviews and producing certain written notices.

5. As noted, the positions were to be funded with registration and annual certification fees. However, the fee revenues have been not been sufficient to fund either position. Consequently, the positions have remained vacant. Moreover, since there are three certified capital companies authorized to make certified capital investments, total annual revenues for the appropriation will be \$15,000. This would not allow Commerce to fill either position. It should be noted that the accounting system for the budget does not include the positions or related expenditure authority. Since the appropriation is a program revenue, continuing appropriation, expenditure authority is not technically necessary for Commerce to expend appropriation monies. A technical change is necessary to recognize the authorized positions.

6. The CAPCO program is currently administered by the Office of Loan and Grant

Administration.

7. The bill would delete the WDF and CAPCO administration appropriations and transfer the four authorized positions and appropriation balances to the Department's program revenue economic development operations appropriation. Annual WDF loan origination fee and CAPCO certification fees would be placed in the appropriation. Currently, there is no ongoing source of program revenue for the economic development operations appropriation.

8. Commerce indicates that consolidation of positions and funding sources would allow the Department to continue funding the grants specialist position and to fill an auditor position that would perform audit activities related to both WDF and the CAPCO programs. Table 2 shows projected revenues, expenditures and appropriation balances for the consolidated appropriation including expenses for the auditor position. If sufficient additional revenues were generated in future years, Commerce could use the funds to fill the remaining authorized positions.

**TABLE 2**

**Revenues, Expenditure and Appropriation Balances for  
Consolidated Economic Development Operations Appropriation**

	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	\$79,600	\$54,300
Revenues		
Loan Origination Fees	70,000	70,000
CAPCO Fees	15,000	15,000
Expenditures	<u>-110,300</u>	<u>-127,700</u>
Closing Balance	\$54,300	\$11,600

9. The table shows that if the auditor position is filled, the appropriation would have sufficient revenues to fund that position and the existing grants specialist position during the biennium. However, ongoing expenditures would exceed ongoing revenues and the consolidated appropriation would only generate enough revenues to fund the grants specialist position on an ongoing basis. As a result, the auditor position would not have a permanent source of ongoing funding from the consolidated appropriation. Moreover, the WDF auditor position has been vacant since October, 1997, while the CAPCO positions have been vacant since April, 1998. Other Commerce staff have been performing the functions of these vacant positions. It could be argued that this indicates that the vacant positions are not necessary to administer the WDF and CAPCO programs. As a result, instead of consolidating the administrative staff in a single appropriation, the three vacant positions and related expenditure authority could be deleted. If, in the future, the Department determined that the positions were necessary to meet the workload associated with the CAPCO and WDF programs and sufficient administrative revenues were generated, Commerce could request additional staff under s. 16.505. If the CAPCO administrative positions are deleted,

the year-end balance and annual fee revenues in the CAPCO administration appropriation could be lapsed to the general fund. It could be argued that this would recognize that GPR funded positions would be administering the program. This would increase GPR-Earned by \$80,500 in 2001-02 and \$15,000 in 2002-03.

## ALTERNATIVES TO BASE

1. Approve the Governor's recommendation, as technically corrected, to transfer \$116,500 PR annually and 2.0 PR positions from the Wisconsin Development Fund (WDF) administration appropriation [20.143(1)(gm)] and 2.0 positions from the CAPCO administration appropriation [20.143(1)(hm)] to the Department's economic development operations appropriation [20.143(1)(h)] to consolidate administrative personnel and funding. Delete the WDF administration appropriation and place loan origination fees and the unencumbered balance in the appropriation in the economic development operations appropriation. Delete the Certified Capital Companies (CAPCO) administration appropriation and place CAPCO administrative fees and the unencumbered balance in the appropriation in the economic development operations appropriation.

<u>Alternative 1</u>	<u>PR</u>
<b>2002-03 POSITIONS</b> (Change to Base)	2.00
[Change to Bill]	2.00]

2. Delete expenditure authority of \$51,400 PR in 2001-02 and \$50,300 PR in 2002-03 and 1.0 vacant PR position in the WDF administration appropriation [20.143(1)(gm)] and 2.0 PR positions in the CAPCO administration appropriation [20.143(1)(hm)].

<u>Alternative 2</u>	<u>PR</u>
<b>2001-03 FUNDING</b> (Change to Base)	- \$101,700
[Change to Bill]	- \$101,700]
<b>2002-03 POSITIONS</b> (Change to Base)	- 1.00
[Change to Bill]	- 1.00]

3. Require that the year-end balance in the CAPCO administration appropriation lapse to the general fund as GPR-Earned. (This alternative could be adopted in addition to, or in lieu of, Alternative #2).

(1)(hm)

<u>Alternative 3</u>	<u>PR</u>
<b>2001-03 REVENUE</b> (Change to Base)	\$95,500
[Change to Bill]	\$95,500]

4. Maintain current law.

Prepared by: Ron Shanovich





State of Wisconsin  
2001 - 2002 LEGISLATURE

LRBb0227

PJK

LFB:.....Shanovich (DH) – Lapse balance in CAPCO administration  
appropriation to general fund at year end

FOR 2001-03 BUDGET — NOT READY FOR INTRODUCTION

**LFB AMENDMENT**

**TO 2001 SENATE BILL 55 AND 2001 ASSEMBLY BILL 144**

SOON  
(5-8)  
D-note

1 At the locations indicated, amend the bill as follows:

2 **1.** Page 481, line 5: delete lines 5 to 13 and substitute:

3 “SECTION 442g. 20.143 (1) (hm) of the statutes is amended to read:

4 20.143 (1) (hm) *Certified capital companies*. All moneys received under subch.

5 II of ch. 560 for the cost of administering subch. II of ch. 560. Notwithstanding s.

6 20.001 (3) (c), at the end of each fiscal year, the unencumbered balance in this

7 appropriation account shall lapse to the general fund.”.

History: 1979 c. 361; 1981 c. 20, 21, 349; 1983 a. 27, 83, 192, 381; 1985 a. 29 ss. 169 to 204, 3202 (14); 1985 a. 120, 332, 334; 1987 a. 27, 109, 317, 318, 399, 403; 1989 a. 31, 185, 237, 317, 325, 335, 336, 342, 359; 1991 a. 39, 259, 261, 269, 315; 1993 a. 5, 16, 75, 110, 232, 437; 1995 a. 27 ss. 483, 505 to 517, 608s, 609g, 609j, 964, 965, 977, 987, 988, 990 to 993, 1080b, 1085b, 1086b, 9116 (5); 1995 a. 116, 119, 216, 227; 1997 a. 9, 27, 35, 215, 237, 252, 310; 1999 a. 9, 84, 106, 185, 186.

8 **2.** Page 1606, line 19: delete lines 19 to 24.

9 **3.** Page 1788, line 7: delete lines 7 to 10.

10

(END)

D-note

**DRAFTER'S NOTE**  
**FROM THE**  
**LEGISLATIVE REFERENCE BUREAU**

LRBb02277/dn

PJK...*[signature]*

*Date*

*for A. 20.143 (1)(hm)*

Ron:

Note that the same result would be achieved by changing the appropriation to an annual one with all moneys received under subch. II of ch. 560 being credited to the appropriation account. That may not be what you want for other reasons, though. Let me know if you want any changes.

Pamela J. Kahler  
Senior Legislative Attorney  
Phone: (608) 266-2682  
E-mail: pam.kahler@legis.state.wi.us

**DRAFTER'S NOTE**  
**FROM THE**  
**LEGISLATIVE REFERENCE BUREAU**

LRBb0227/1dn  
PJK:hmlh:jf

May 8, 2001

Ron:

Note that the same result would be achieved for s. 20.143 (1) (hm) by changing the appropriation to an annual one with all moneys received under subch. II of ch. 560 being credited to the appropriation account. That may not be what you want for other reasons, though. Let me know if you want any changes.

Pamela J. Kahler  
Senior Legislative Attorney  
Phone: (608) 266-2682  
E-mail: [pam.kahler@legis.state.wi.us](mailto:pam.kahler@legis.state.wi.us)

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